

Message Text

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 EUR-10 EB-03 FEA-01 NSC-10 NSCE-00

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INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMCONSUL DHAHRAN

USMISSION OECD PARIS

S E C R E T KUWAIT 0263

LIMDIS

BEIRUT PASS BAGHDAD

E.O. 11652: GDS

TAGS: ENRG KU

SUBJECT: PARTICIPATION: KUWAIT GOVT NEGOTIATIONS WITH GULF
AND BP

SUMMARY: BP AND GULF STILL HAVE NOT BEEN ABLE OBTAIN GOK SIGNA-
TURE ON PARTICIPATION AGREEMENT. PRESENT DRAFT CONTAINS COMPANY
OFFERS OF 60 PERCENT PARTICIPATION, COMPENSATION IN DOLLAR
AMOUNT TO AVOID SPECIFYING NET BOOK VALUE, RENEGOTIATION OF AGREE-
MENT IN 1979. PROBLEM OF BUY BACK PRICES STILL UNRESOLVED.
COMPANY REPS NOT SANGUINE AGREEMENT WILL HOLD FOR LONG EVEN IF
GOK SIGNS AND AGREEMENT MAKES IT THROUGH NATIONAL ASSEMBLY WHICH
STILL LOQSLY CALLING FOR NATIONALIZATION. GOK TO AUCTION ITS
ROYALTY OIL. END SUMMARY.

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1. GULF AND BP REPS RAPSTON AND SUTCLIFFE CAME BY TO SEE ME JAN 20.

THEY SAID THEY HAD JUST MADE ALL-OUT EFFORT OBTAIN GOK SIGNATURE ON PARTICIPATION AGREEMENT, BUT AT LAST MINUTE PRIME MIN JABER AL-AHMAD DECLINED TO RECALL COUNCIL OF MINISTERS INTO SPECIAL SESSION, PLEADING FATIGUE AND PREOCCUPATION WITH PRES. SADAT WHO INDEED WAS IN TOWN. RALSTON AND SUTCLIFFE OUTLINED MAIN FEATURES OF DRAFT AGREEMENT AS FOLLOWS, REQUESTING THIS INFO BE CLOSELY HELD.

A. PARTICIPATION. GOK AND COMPANIES ARE AGREED ON 60 PERCENT PARTICIPATION FOR KUWAIT KOC, COVERING CRUDE, REFINING, LIQUIFIED GAS AND MARINE TRANSPORT FACILITIES. AGREEMENT DOES NOT INCLUDE NATURAL GAS WHICH SOLE PROPERTY OF KUWAIT.

B. COMPENSATION. GOK DEMANDS NET BOOK VALUE, WHILE COMPANIES WANT AT ALL COSTS AVOID APPEARANCE OF WORDS "NET BOOK VALUE" IN TEXT OF AGREEMENT. ACCORDING TO REPS, ATEEQI IN TALKS WITH THEM IN GENEVA COUPLE WEEKS AGO UNDERTOOK TRY TO CONVINCE COUNCIL OF MINS AGREE TO AVOID WORDS AND SIMPLY TO INCLUDE DOLLAR FIGURE FOR COMPENSATION. FIGURE MENTIONED IN GENEVA, REPS SAID, WAS IN NEIGHBORHOOD OF 150 MILLION DOLLARS. NOW IN KUWAIT, HOWEVER, SOME MEMBERS OF COUNCIL OF MINISTERS HAVE BALKED AT ELIMINATION EXPRESSION "NET BOOK VALUE". COMPANIES THEN OFFERED ACCEPT FIGURE OF ABOUT 100 MILLION IF EXPRESSION ABSENT FROM AGREEMENT AND IF GOK WOULD SIGN IMMEDIATELY. AS NOTED ABOVE, PRIME MIN BEGGED OFF.

C. BUY BACK PRICES. GOK AND COMPANIES GOT NOWHERE ON PRICES. RE CRUDE, THE TWO SIDES STILL ABOUT 2.50 DOLLARS PER BARREL APART. COMPANIES HOPE FOR AGREEMENT ON PRICES BY FEB 28 FOR KUWAIT'S SHARE OF NET EXPORTS FOR FIRST QUARTER OF 1974, I.E. ABOUT 122 MILLION BARRELS. IF NO AGREEMENT REACHED, COMPANIES HAVE OFFERED PAY BACK KUWAIT THESE 122 MILLION BARRELS IN CRUDE BY END OF 1975. (COMPANIES WOULD LIKE STRETCH PAYMENT OUT OVER LONGER PERIOD OF COURSE.)

D. AGREEMENT TO BE REVIEWED IN 1979.

E. REST OF SHORT DRAFT AGREEMENT SPELLS OUT COMPOSITION OF GOVERNING BOARD, DECISION MAKING PROCESS AND OTHER USUAL FEATURES. AGREEMENT IS HEAVY ON RIGHTS OF KUWAITIS AND OBLIGATIONS
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OF COMPANIES.

2. COMPANY REPS SAID THEY LEAVING FOR LONDON AGAIN JAN 21 BUT HOPE RETURN WITHIN WEEK OR SO TO FINALLY OBTAIN GOK SIGNATURE.

3. PROSPECTS FOR NATIONALIZATION. RALSTON AND SUTCLIFFE SAID KUWAIT MINFINANCE AND OIL OFFICIALS HAD ALLEGED THAT ORIGINAL CALL FOR NATIONALIZATION BY GROUP OF "MODERATE" DEPUTIES IN NATIONAL

ASSEMBLY HAD BEEN INSTIGATED BY GOK ITSELF IN EFFORT PREEMPT
SERIOUS AND DANGEROUS BID TO PUSH THROUGH IMMEDIATE NATIONALIZATION
OF KOC BY LEFTIST ANP DEPUTIES LED BY AHMAD KHATIB. BE THAT AS IT
MAY, COMPANY REPS ARE NOT RPT NOT SANGUINE ANY PARTICIPATION AGREE-
MENT, EVEN IF PASSED BY NATIONAL ASSEMBLY MORE OR LESS IN
PRESENT DRAFT FORM, CAN LAST MORE THAN ONE OR TWO YEARS AT MOST.
ASKED MY OPINION, I SAID I HAD TO AGREE WITH THEM; JUST AS
EXPRESSION "NET BOOK VALUE" WAS ANATHEMA TO COMPANIES,
"NATIONALIZATION" WAS DISTASTEFUL WORD KUWAITIS TRYING AVOID USING.
HOWEVER, I SAID, "100 PERCENT PARTICIPATION" SEEMED ALREADY
UNCOMFORTABLY CLOSE AT HAND, AND IT WAS NOT CLEAR TO ME HOW
DIFFERENT A CONCEPT THIS WAS FROM NATIONALIZATION ITSELF EXCEPT
POSSIBLY IN PSYCHOLOGICAL SENSE. COMPANY REPS AGREED.

4. TRYING TO LOOK AHEAD, COMPANY REPS OPINED THAT UNDER
100 PERCENT PARTICIPATION, COMPANIES' ROLE WOULD DEPEND
UPON RATE OF OIL PRODUCTION. AT PRESENT RATE OR NORMAL THREE
MILLION BARRELS PER DAY, KUWAIT WOULD NEED SERVICE COMPANIES.
IF KUWAIT ELECTED DROP PRODUCTION TO MINIMUM (ABOUT 1.5 MILLION),
KUWAITIS CAPABLE OF RUNNING THEIR OIL INDUSTRY THEMSELVES WITH
ONLY MINOR SELECTIVE OUTSIDE HELP.

5. REPS SAID GOK PLANS AUCTION VERY SOON OF ITS ROYALTY OIL
(ABOUT 420,000 BARRELS A DAY) FOR PERIOD MARCH 1 TO AUG 31, 19 .
MORE THAN 40 COMPANIES ARE BEING INVITED TO BID.
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